c2710-2

©Entire contents copyright 1990 by Crain Communications Inc. All rights reserved.

March 5, 1990

P &Investments

The Newspaper of Corporate and Institutional Investing

$8 An Issue / $127 A Year

#880E********5-DIGIT 20814
INZ
#04C52669Z 5#01P100526 99
4520 EAST-WEST HWY SU 800
STATISTICAL REFERENCE INDEX
BETHESDA MD 20814

AT DEADLINE

Wunsch leaves Kidder

R. Steven Wunsch has left Kidder, Peabody & Co. to develop his controversial system for a single-price auction mechanism.

Mr. Wunsch, former vice president in Kidder's financial futures department, said he hopes to have the system — an electronic trading market where stocks are bought and sold through an open book at a fixed time of the day — ready in April.

Virginia official quits

The chairman of the $10.24 billion Virginia Supplemental Retirement System has resigned amid controversy surrounding the proposed merger of a company in which the fund owns a 19% stake.

Charles W. Walker, who previously said he had planned to resign from his post at the fund this year, also sits on the board of Richmond, Fredericksburg & Potomac Railroad Co., which CSX Corp. wants to acquire.

He said a conflict with Gov. L. Douglas Wilder over whether the merger makes sound investment sense hastened his departure.

Committee approves bill

The Senate Labor Committee approved legislation restoring older workers' ability to challenge reductions in their benefits on age discrimination grounds.

But the bill, S. 1511, was amended to permit certain early retirement subsidies and provide a limited offset of severance benefits with health benefits, meeting some of the objections of employer and labor groups.

Kentucky taps 6

The board for the $3.3 billion Kentucky Retirement Systems has authorized hiring six investment managers for about $2.2 billion and terminating a balanced and fixed-income manager.

The new managers, subject to contract negotiations, are: Investment Advisers, First Kentucky Co., Investment Counselors of Maryland, T. Rowe Price Associates, TCW Realty and Yarmouth Group.

Terminated were Capital Supervisors, which for a decade ran a balanced fund, and Munder Capital Management, which managed fixed income.

Group issues report

The U.S. Group of Thirty Steering Committee, a group of financial executives, repeated in a Feb. 28 report its call for the use of same-day funds for payment of corporate securities "as soon as practicable." The change is one of several sought to make global investing faster and more efficient.

Manager hired

The Prudential Bank & Trust Co., a unit of Prudential Financial Services Inc., hired Munder Capital Management to manage half of its $16 million employee benefit fixed-income fund.

New hurdles for reversions

Sen. Howard Metzenbaum's fight to restrict reversions is gaining support.

Tough rules proposed for surplus distributions

By Joel Chernoff

WASHINGTON — Plan sponsors would stop recouping surplus pension assets and might even freeze their defined benefit plans if a bill passed by a Senate panel last week becomes law, experts predict.

"They have solved the problem of overfunded pension plans. There simply won't be any," said Mark Ugoretz, executive director of the ERISA Industry Committee, a Washington-based lobbying group.

In an 11-5 vote, the Senate Labor and Human Resources Committee approved legislation that would expose employers to a whole new level of liability for trying to use surplus pension assets for purposes other than to fund retirement benefits.

The bill would make the decision to distribute surplus assets from a terminated pension plan a fiduciary one under the 1974 Employee Retirement Income Security Act. The bill also would subject any transfers of surplus assets to a retiree medical account to fiduciary rules.

"It's clearly going to slam the brakes on a lot" of asset reversions, said Frank McArdle, manager of Hewitt Associates' Washington office.

"Effectively, it forces an employer to freeze his plan for fear that some disaffected employee group will sue him," Mr. Ugoretz added. Even normal plan functions not involving a reversion or transfer — such as adding a cost-of-living adjustment for current retirees, merging plans, spinning off plans or funding decisions — might elicit a lawsuit from active employees, he warned.

The bill was proposed by Sens. Howard Metzenbaum, D-Ohio, and Nancy Kassebaum, R-Kan. It replaces S. 685, which would have required employers to share the surplus with retirees and provide replacement retirement plans.

Mr. Metzenbaum has been trying to restrict asset reversions for seven years.

The recent troubles of Drexel Burnham Lambert Inc. and the junk-bond market have given greater momentum to these efforts. Specifically, concerns were raised by Ms. Kassebaum's constituents over an initial commitment — since canceled — by Wichita, Kan.-based Coleman Co. Inc. to purchase annuities from a

See **Assets** *on page 34*

Oregon sees gem in junk heap

State fund focuses on special plays

By Terry Williams

SALEM, Ore. — The Oregon Public Employes Retirement System is picking through the ruins of distressed companies to make a special situation play in the junk-bond market.

The retirement system re-entered the junk market Feb. 16 with its purchase from an unidentified bank of $20 million of junk bonds of bankrupt Revco D.S. Inc.

William Unvertzagt, investment officer-fixed income, said the $11.1 billion fund bought the bonds, with an 11.75% coupon, at 86, a discount. It expects to receive an annual return of 25%, he said.

Oregon fund officials want to buy the junk issues of distressed companies they believe will emerge healthy from bankruptcy, according to Mr. Unvertzagt.

"We don't want to play the junk market per se," he said. "We want special situations. It may not sound like much of a distinction but it's quite a large one."

The Oregon fund left the junk market in August 1988, when it sold about $200 million of industrial junk bonds. The difference between that play and the current one is the strategy.

Two years ago, Oregon allocated a percentage of its total assets to buy junk bonds, then chose from a diversified list of 35 to 40 companies, Mr. Unvertzagt said. "We did it (that way) before and made money and then got out," he said.

That approach is no longer adequate in today's volatile market, according to Mr. Unvertzagt. "Now you have to look for special situations."

"The approach we are taking right now is we will buy junk issues but it has to be an ongoing business that could show growth," he said.

Oregon is on the lookout for three to five situations like Revco, in which it can put $20 million to $50 million each, Mr. Unvertzagt said.

Fund officials have not set a limit on the percentage of total assets they will allocate to the junk bonds of distressed companies. "The limit is how many good situations we find," Mr. Unvertzagt said. "We don't think there are many."

Revco's junk bonds were attractive because the business was healthy and continued to operate while in bankruptcy, Mr. Unvertzagt said.

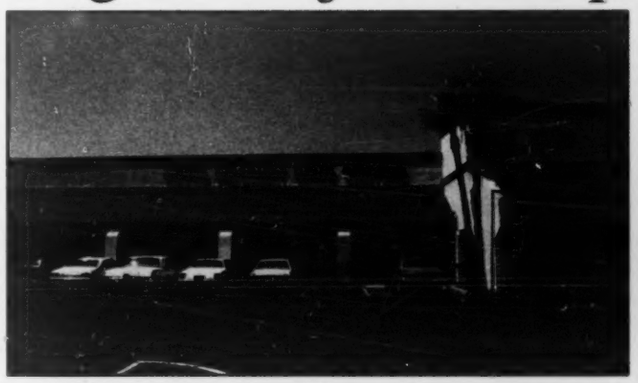
"The capital structure is what put them under," he said. (In June 1988, REVCO failed to make a $46 million semiannual payment on $703.5 million of publicly held bonds.) "The business itself was healthy."

Revco, based in Twinsburg, Ohio, is reorganizing under Chapter 11 of the Federal Bankruptcy Code. It operates a nationwide chain of about 1,800 drugstores, down from about 2,000 when the company filed for protection from its creditors July 28, 1988.

Revco was the first major company to declare bankruptcy after being taken private in a leveraged buy-out. The buy-out was put together by Salomon Brothers Inc.

The junk bonds Oregon now owns were part of a private placement and are collateralized by the drug stores, according to Mr. Unvertzagt.

"What we really liked was being a senior creditor of this company," he said. "We expect them to emerge from bankruptcy in no more than two years." ■



Revco junk bonds have caught the eye of the Oregon fund, which sees a pot of gold in securities of the distressed drugstore chain.

$20 bil. looking for work

By Leonard Hollie and Marlene Givant Star

The failure of Forstmann Little & Co. to raise $3 billion for equity infusions in overleveraged companies still leaves more than $20 billion of institutional investors' capital available to fuel corporate restructuring and acquisition activity despite recent setbacks in the junk-bond market.

Corporate restructuring-related funds have an estimated $20 billion from pension funds and other institutions committed, but

A directory of LBO funds begins on page 17.

uninvested. That figure does not include the leverage that capital represents, which would give dealmakers five to 10 times more money to put to work.

Even without the Forstmann-Little fund, which the firm scrapped last week after it was unable to raise a significant amount from former institutional partners and others, there are more than 100 funds seeking institutions for another $5-billion-plus for leveraged

See Little on page 33

NEWS DIGEST

The Securities and Exchange Commission decided shareholder resolutions opposing tobacco product manufacturing and advertising must be put to a vote. Page 6.

LTV Corp.'s motives involving its terminated pension plans were questioned by two justices as arguments opened in its case before the Supreme Court. Page 34.

SPECIAL REPORT: DIRECTORY OF LBO FUNDS

Leveraged buy-out professionals insist the deals aren't dead, despite recent events. *P&I* has put together a directory of some of the key LBO players. Page 17.

FINANCING

More than $20 billion from institutional investors will continue to fuel corporate restructurings. Page 1.

Benedetto, Gartland & Co., an investment bank focusing on second-tier issuers, did two deals totaling $1 billion in its first year. Page 8.

Public company ESOPs are on a borrowing binge and investors are gobbling up the debt. Page 28.

INTERNATIONAL

Deutsche Bank Capital Management (USA) has closed its office in New York. Page 10.

Japanese mergers and acquisitions are heating up, fueling speculation in the Tokyo stock market. Page 26.

The roller-coaster ride in the Japanese markets hasn't yielded buying opportunities for U.S. investors. Page 34.

REAL ESTATE

Philadelphia Municipal Pension Fund trustees are under fire for MIG Realty Advisers' dual role. Page 6.

Real estate investment bankers are among the best paid professionals in the industry. Page 8.

PSI Institutional Realty has convinced five pension fund investors the demand for miniwarehouses will continue to be strong. Page 20.

DEPARTMENTS

Classified	32	Market beat	21
Commentary	14	Money movers	29
From the editor	12	Opinion	12
Frontlines	8	Portfolio management	22

Vol. 18, No. 5 — Pensions & Investments (ISSN 0273-5466) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

Armstrong in 2-front war

Takeover fought with proxies, legislation

By Curtis Vosti and Marcia Parker

LANCASTER, Pa. — Institutional investors will play a pivotal role in the outcome of the brutal proxy contest between Armstrong World Industries Inc. and Canada's Belzberg family, the company's second largest shareholder after its ESOP.

As soon as their proxy materials gain government approval, advisers to both sides will begin seriously courting the institutions, who own close to 60% of Armstrong. The contest will be decided at Armstrong's April 30 annual meeting.

Meanwhile, this hot battle for corporate control also is shaping up to be the prime test of shareholder rights in the form of a controversial bill pending before the Pennsylvania Legislature to give its already strong anti-takeover law even more teeth. The impetus for the bill is the Armstrong-Belzberg struggle.

Institutional investors across the country have joined forces against the bill they say would make it absurd, if not legally questionable, to invest in Pennsylvania companies.

Officials from the Pennsylvania State Employes' Retirement System, the California Public Employees' Retirement System and the Massachusetts Pensions Reserve Investment Management Board were among those testifying during two days of hearings before the Pennsylvania House Business and Commerce Committee.

"I think it's outrageous. It fundamentally attacks the rights of shareholders," said Paul Quirk, PRIM's executive director.

He said the Council of Institutional Investors' executive committee, of which he is a member, took the unprecedented step of voting unanimously to oppose the measure. Although anti-shareholder provisions have passed other states without council input, the committee decided to act on the Pennsylvania proposal in part because, "this is the worst of any that I've seen."

While some of the institutional investors could see the merit in making hostile takeovers harder, they complained the bill would allow an unacceptable realignment of shareholder rights.

The bill would allow corporate directors the right to consider in-

See **Turmoil** *on page 32*

Lockheed adds fund parachute

By Trudy Ring

CALABASAS, Calif. — Lockheed Corp., in a proxy battle with takeover artist Harold Simmons, has installed a "pension parachute" to make its overfunded pension plan less attractive to acquirers.

Lockheed officials contend the company's pension surplus is much smaller than it looks. According to its 1990 annual report, Lockheed's pension assets exceed its accumulated benefit obligation by $2.1 billion.

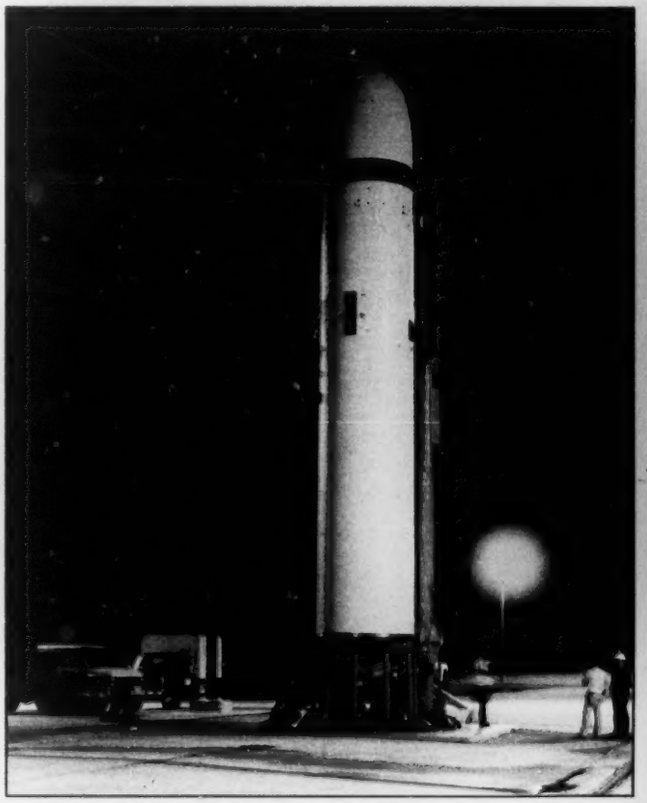
The report lists assets of $5.7 billion, an ABO of $3.6 billion and a projected benefit obligation of $4.2 billion as of Dec. 31.

A statement issued by Lockheed's investor relations department, however, says if existing plans were terminated, only about $100 million would be available.

Factors reducing the surplus would be the cost of buying annuities to cover benefits, federal and state taxes, and expected contractual claims of government customers.

Lockheed is a major defense

See **Lockheed** *on page 31*



Lockheed, a major defense and aerospace concern, is taking steps to make its pension surplus less appetizing to takeover artists.

FDIC cut-off irks 457 sponsors

By Fred Williams

State and local officials nationwide are angered by the FDIC's proposal to withdraw pass-through insurance coverage on 457 plan assets invested in savings and loan time deposits.

Government finance officials believe removal of the pass-through coverage will discourage participation in 457 plans, and thrift officials warn of a possible exodus of assets from the S&Ls if the coverage is removed. About 40% of 457 plan assets are deposited in S&Ls.

In the same report, the Federal Deposit Insurance Corp., as expected, reaffirmed the principal of pass-through insurance coverage for bank investment contracts. The pass-through issue has been at the center of an extended controversy between banks and insurance companies, which view the pass-through coverage of $100,000 per participant on BICs as unfair and posing unnecessary risk to the FDIC.

The study is one of three reports on deposit insurance required under provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The other two studies, not expected until 1991, are being conducted by the Treasury Department and the General Accounting Office.

While the FDIC's stance on pass-through coverage for BICs was no real surprise, the removal of the pass-through coverage for assets held in savings and loan institutions by 457 plans has prompted state and local officials across the country to complain about what they see as unfair treatment.

The FDIC has taken the unusual step of calling a public hearing March 14 in Washington on the issue.

It is estimated about $4 billion of the approximately $10 billion in 457 plan assets are in time deposits in S&Ls. Thrift accounts had been covered by pass-through

See **Public** *on page 33*

FINANCING

Firm capitalizes on second tier concentration

■ An investment banking firm set up to work with companies just under the first tier of the 300 largest issuers completed two deals worth more than $1 billion during its first year.

Benedetto, Gartland & Co., New York, not only raises money for its own investment banking activities, but also for other investors. In 1989, Benedetto, Gartland was the U.S. fund raiser for British-based Clayton & Dubilier's $1.2 billion leveraged buyout fund.

It also recently completed financing for Pointplus in its effort to gain control of a U.K. printing technology company, Monotype. Pointplus is the investment arm of U.S.-based King Black & Associates. To complete the deal, Pointplus had to buy a 7.38% share of Monotype from Robert Maxwell. Mr. Maxwell is owner of the U.K.-based Mirror Group Newspapers who unsuccessfully bid for Monotype, which supplies the Mirror newspapers with printing technology services.

M. William Benedetto was formerly managing director of the corporate finance department at Bear, Stearns & Co. The firm's other founder, Arthur J. Gartland, formerly served as managing director with Kidder, Peabody & Co. They had worked together at Dean Witter Reynolds Inc.

Photo by Alice Garik

M. William Benedetto's firm did $1 billion in deals its first year.

INVESTING

Alpine a disciple of religious bonds

■ Alpine Capital Management Chairman John Dickerson, impressed with the quality and yield of bonds issued by Roman Catholic entities, has launched a mutual fund focusing on these instruments.

The Catholic Income Trust invests in bonds issued by Catholic dioceses and related institutions such as hospitals, nursing homes and universities. It also invests in corporate, municipal and government-agency bonds whose issuers meet social criteria in tune with Catholic doctrine.

Mr. Dickerson got the idea for the fund about two years ago when he looked over the prospectus for a Catholic institution's bond issue. He was impressed with the balance sheet and yield, he said: "For all practical purposes, I felt the bond was as good as a government bond."

Such bonds weren't widely available to the general public, however, as other Catholic institutions usually snapped them up for their investment portfolios. The mutual fund has drawn significant institutional interest, with a diocese and an insurance company among the investors. It has $3.2 million so far.

Alpine has a similar fund for Protestant entities' bonds, the Fellowship Income Trust, in registration with the Securities and Exchange Commission. Mr. Dickerson, a Presbyterian, emphasized setting up the funds was a business, not a religious, decision: "We discerned a market niche."

Ted Aronson smiles at the timing of his Drexel investment.

INVESTING

Recalling glory that was Drexel

■ Ted Aronson, principal of Philadelphia-based Aronson & Fogler, claims the best investment he ever made was in the stock of **Drexel Burnham Lambert Inc.**, which filed Feb. 13 for protection from its creditors under Chapter 11 of the Federal Bankruptcy Code.

But before you check on his performance, you should know he owned the stock while he was an employee of the now-beleaguered firm from 1974 to 1981.

"My investment in Drexel, which thank God was automatically cashed out when I left . . . was easily the best investment I ever made," Mr. Aronson said, adding he used the proceeds "to go on my entrepreneurial way."

Mr. Aronson estimated his stock increased in value about 500% while he owned it. "And that was before they really took off" during the 1980s.

REAL ESTATE

Investment bankers draw top dollar in realty industry

■ Heads of real estate departments at major investment banks earned the highest salaries in the real estate industry in 1989 and should continue to be the highest paid in the 1990s, a survey shows.

The survey, conducted by Ferguson Partners Ltd., a Chicago business advisory service firm, includes 49 salary categories from 500 companies.

The highest paid real estate executives made between $600,000 and $1.2 million, a 30% increase from 1988, according to the report. Heads of real estate departments at major investment banks were at the top of the list because of their financial expertise. And William J. Ferguson, managing partner, said "real estate executives with financial backgrounds and expertise are expected to become even more important in the years ahead."

Other top-paying job categories are:

- Acquisition heads of major pension advisory firms, $500,000.
- Chief executive officers of full service real estate firms with no equity potential, $437,500.
- Chief executive officers of savings and loans with assets of $5.1 billion or more, $437,500.
- Chief executive officers of residential mortgage banks with assets of $5.1 billion or more, $393,750 to $437,500.
- Vice presidents of mortgage lending for insurance companies with real estate portfolios exceeding $9 billion, $300,000 to $400,000.
- Chief executive officers of major real estate consulting firms, $300,000 to $400,000.
- Marketing directors of real estate money management firms, $200,000 with bonuses as a percentage of funds raised.

FUTURES & OPTIONS

Index options better performers

■ Option writers are better off using indexed instruments than options on individual stocks, according to Peter Thayer, president of Cincinnati-based Gateway Investment Advisers.

A Gateway strategy that tracks the Standard & Poor's 100 Stock Index and overlays it with S&P 100 options returned 19.5% in 1989.

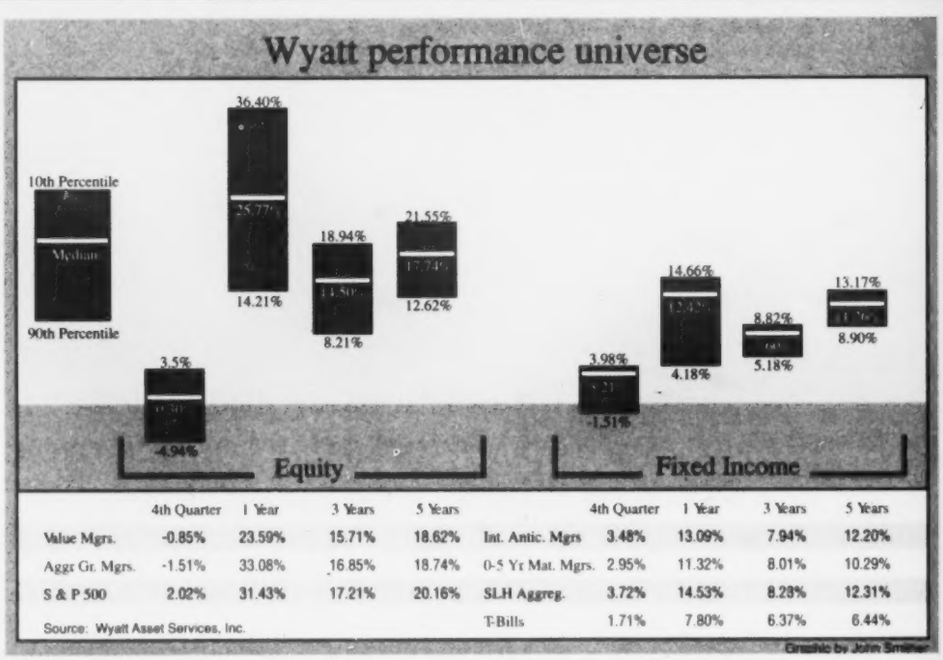
During the same period, the firm's accounts overwritten with individual stock options returned 9% on average, Mr. Thayer said.

He blames the poorer performance of the latter accounts on internal dispersion within the universe of stocks.

"Half your stocks are going way up, half your stocks are going way down," he said. The ones that go way up are called away as their prices surpass the option strike price.

For the future, Mr. Thayer plans to suggest to clients going into option writing strategies that they index at least a portion of their holdings.

Peter Thayer will suggest indexing to new option clients.



	4th Quarter	1 Year	3 Years	5 Years		4th Quarter	1 Year	3 Years	5 Years
Value Mgrs.	-0.85%	23.59%	15.71%	18.62%	Int. Antic. Mgrs	3.48%	13.09%	7.94%	12.20%
Aggr Gr. Mgrs.	-1.51%	33.08%	16.85%	18.74%	0-5 Yr Mat. Mgrs.	2.95%	11.32%	8.01%	10.29%
S & P 500	2.02%	31.43%	17.21%	20.16%	SLH Aggreg.	3.72%	14.53%	8.28%	12.31%
					T-Bills	1.71%	7.80%	6.37%	6.44%

Source: Wyatt Asset Services, Inc.

Graphic by John Smither

MONEY MANAGERS

Eagle decides to clip own wings

■ Eagle Asset Management, which doubled its assets under management during the past year, has decided to shut its doors to new business prospects until January 1991.

The decision came suddenly. "We were sitting there in the third week in January and literally involved in more searches than before," said Lincoln Kinnicutt, senior vice president.

The firm "was afraid it would strain our resources" if any additional new business were pursued, Mr. Kinnicutt explained.

The St. Petersburg, Fla., equity manager has ballooned to $3.5 billion from $1.7 billion a year ago. Tax-exempt assets have shot up to about $2.6 billion from $1.2 billion during that period, including accounts from Dennison Manufacturing Co., the Oklahoma Teachers' Retirement System, and the City of Tallahassee (Fla.) Retirement System.

No wonder Eagle has to turn clients away. It returned 34.7% in 1989, and a compound annual 24.4% and 23.3% for the five- and 10-year periods. The Standard & Poor's 500 returned 31.6%, 20.3% and 17.6%, respectively.

PEOPLE

Arvin Industries names new CFO

■ Richard Smith is the new chief financial officer and vice president-finance at Arvin Industries.

Mr. Smith had been treasurer of the Columbus, Ind., company since November when he joined Arvin. The company makes various products, including auto parts and accessories, and is involved in metals fabrication.

Previously, he was vice president and treasurer of The May Department Stores Co. and vice president and controller of its Volume Shoe Corp. subsidiary.

Justices hear LTV arguments

By Jerry Geisel

WASHINGTON — The chief justice of the United States asked last week whether a new pension program by The LTV Corp. really was an effort to shift a huge pension debt to a federal agency.

During oral arguments Feb. 27 in the multibillion-dollar pension case, Chief Justice William Rehnquist questioned if the LTV program was a way to "fob off" most of the plans' $2 billion in unfunded pension liabilities onto the Pension Benefit Guaranty Corp.

At the same time, Associate Justice Antonin Scalia appeared skeptical of whether the PBGC should have to pick up LTV's pension liabilities while LTV operates a new pension program.

"It would seem very strange indeed for the federal government to allow your company to compete with others . . . and have taxpayers fund it," Justice Scalia said. LTV, a Dallas-based aerospace and steel manufacturer, has been operating under Chapter 11 of the Federal Bankruptcy Code for more than three years.

The justices' remarks came as the Supreme Court reviews a case with major implications for the PBGC and for employers with defined benefit pension plans that support the PBGC through mandatory insurance premiums.

At issue is whether the PBGC has the authority to restore an already terminated pension plan after a company sets up new "follow-on" pension plans.

In January 1987, the PBGC terminated three LTV pension plans, which have more than $2 billion in unfunded liabilities and about 100,000 participants, after LTV told the agency it no longer could afford to fund the plans.

In September 1987, the PBGC — in an unprecedented action — told LTV it was returning the plans to the company. The PBGC moved to restore the plans after LTV, as part of a collective bargaining agreement with the United Steelworkers of America, established follow-on plans to provide to union members certain non-PBGC guaranteed benefits that were lost when the old plans were terminated.

The PBGC charged LTV was abusing the insurance program. The agency said the new plans were an illegal continuation of the terminated plans, except the PBGC, rather than LTV, would be paying the bulk of benefits to vested workers and retirees.

But federal courts have ruled against the PBGC. In 1988, a U.S. District Court judge ruled said the PBGC had acted in an "arbitrary and capricious manner" in returning the plans to LTV. The decision was affirmed last year by the 2nd U.S. Circuit Court of Appeals.

The stakes are enormous. PBGC officials have said if LTV prevails, other companies will terminate underfunded pension plans, shift the liabilities to the PBGC and establish new, low-cost plans.

Bankruptcy attorneys, however, say 1987 pension reforms have made it much tougher to dump pension liabilities on the agency.

In arguments before the Supreme Court, PBGC General Counsel Carol Flowe said the Employee Retirement Income Security Act of 1974 gives the agency broad authority to restore a terminated pension plan.

But New York attorney Lewis Kaden of Davis Polk & Wardwell, who argued on behalf of LTV, said there is nothing in ERISA that bars an employer from establishing new pension plans after it terminates a plan, and the agency's actions violated the Administrative Procedures Act.

Mr. Kaden said if the PBGC restored LTV's plans, a kind of pension "pingpong" would result. He noted that because one of the plans is essentially broke, the PBGC would, under law, be required to reterminate the plan.

Ms. Flowe disagreed, saying that plan has sufficient assets to pay benefits for at least several years. ■

The A.M. Best Co. rating of **Aetna Life** was misprinted in a chart in the Feb. 19 issue. The correct rating is A+.

10 largest group annuity writers

Rating	Writer	Amount $ bils.	% bonds	% long-term investment-grade holdings
A+	Metropolitan	8.2	53	96
A+	Aetna Life	5.6	30	93
A+	Equitable Life	3.9	27	87
A+	New York Life	3.2	56	97
A+	John Hancock	2.9	35	90
A+	Principal Mutual Life	2.8	29	88
A+	Prudential	2.5	44	87
A+	Mutual Life of New York	1.9	27	88
A	Provident Nat'l Life	1.6	56	98
A+	Hartford Life	1.4	65	100

Table based on year-end 1988 data, which is the latest available. A.M. Best's top rating is A+.
Source: A.M. Best Co. Inc., Oldwick, N.J.

SUBSCRIBER SERVICE FORM

I wish to:

☐ change my address (enclose label below)
☐ ask a question about my subscription (enclose label and question)
☐ subscribe
☐ 1 year..... $127.00
☐ 2 years..... $207.00
☐ 3 years..... $287.00

(Air mail & foreign delivery extra. Please write or call for rates 1-800-992-9970)

Name

Title

Company name

Address

City State Zip

Phone

Mail to:
Pensions & Investments
Circulation Department
965 E. Jefferson Ave.
Detroit, MI 48207

Attach label here for address changes & inquiries.

More disorder seen in Japanese markets

By Curtis Vosti

During the roller-coaster ride in the Japanese markets the last weeks of February, U.S. institutional investors for the most part nervously eyed the situation but did not identify buying opportunities.

Several managers said they expect the volatility to continue at least in the near term. Other factors, such as increasing yields in fixed income and the end of the Japanese fiscal year March 31, also would conspire to make the market, at least in the short term, "not a safe place," as one analyst at Baring International Investments Ltd., London, said.

On Feb. 26, the Nikkei index dropped to 33,321 — an additional 4.5% drop in a market that had dropped 6.9% the week before — but climbed back 1,200 points the next two days before dropping 762 points March 1.

The feeling the Japanese market is ripe for correction — or at the least, overvalued — is widespread among U.S. institutional investors. According to InterSec Research Corp., Stamford, Conn., the median weighting of U.S. overseas portfolios in Japan stood at 33.8% at the end of 1989, about half of the weighting in the commonly used international benchmarks against which managers' performances are measured.

What that means is managers were betting Japanese market performance would drag down the benchmarks. By underweighting Japan, managers had an opportunity to outperform the index by investing in other markets.

Because of its economic outlook of higher interest rates, inflation pressures and large money supply growth, GE Investments had lowered its weighting in Japan to the "high 20s" from about 40% at the start of the year, according to John Reinsberg, senior vice president. "We're going to sit and wait for opportunities," Mr. Reinsberg said Feb. 28, after the two-day 1,200-point rally.

He said the firm expects the Japanese market to continue to be volatile in the near term. However, overall the firm has a positive economic outlook for Japan. "It's just going to be much more selective than in the past."

Others agreed.

"We will not invest in Japan until it (the Nikkei average) comes down another 20%," said Forrest Berkley, portfolio manager for Grantham, Mayo, Van Otterloo & Co. International, Boston, which has been out of the Japanese market since June 1988.

"We think as a market, Japan is still dramatically overvalued relative to the risk and return needs of our U.S. clients," said I.P. "Kip" Knelman, executive vice president and director for Hill Samuel Investment Advisers, Minneapolis.

Hill Samuel is weighted about 18% in Japan, and Mr. Knelman said the market would need to drop to about 24,000 before the firm would consider the market ripe for buying.

In a point echoed by many firms with sizable, although underweighted Japanese portfolios, Mr. Knelman said there is value to be found in selected stocks, although "right now there's nothing we're actively purchasing."

Peter Hartley, chief investment officer at Baring, agreed there are selected stocks in which to find value, although "most foreigners can't understand the basis of valuing the Japanese shares."

"I can't see us becoming overweight compared with the index," said Mr. Hartley. The firm is about 38% weighted in Japan and says using the firm's value-driven approach, the market would have to go "significantly lower" before it would consider it a buying opportunity. ■

Assets

Continued from page 1

unit of First Executive Corp., Los Angeles. First Executive took a $515 million write-down on its earnings last quarter because of its heavy junk-bond holdings.

In addition, the element of stopping corporate raiders — New York financier Ron Perelman acquired Coleman a year ago — and desires to protect retirement income needs of older workers have made the legislation into "a sexier issue than it has (been) in the past," explained Mr. McArdle.

The bill outlines factors the fiduciary would have to consider in distributing surplus assets when a plan is terminated.

Those criteria include whether an adequate portion of the surplus assets was retained in a comparable replacement plan, whether cost-of-living adjustments were provided to retirees and whether the employer was financially stable enough to continue providing benefits.

But the bill fails to provide specifics, instead requiring employers to hire an independent adviser to evaluate the transaction.

Benefits experts question whether almost any transaction might not violate ERISA's requirement that fiduciaries act in the "exclusive benefit" of plan participants and beneficiaries.

In addition, the bill would make the plan administrator personally liable for the amount of the reversion plus interest and other remedies, and would give participants the right to challenge the administrator's decision in court.

Similarly, the bill lays out fiduciary considerations for permitting a transfer of surplus assets to retiree-health accounts but provides few specifics.

In authorizing a transfer, the legislation would require a fiduciary to consider whether: "adequate vesting and other protections" are provided to pension plan participants; retiree health benefits would not be eliminated or reduced; and the pension plan retained sufficient assets to meet future benefit liabilities and includes a funding cushion.

Nowhere, for example, does the bill define what qualifies as an adequate funding cushion or whether retiree health benefits must be retained at a fixed-dollar level or as a proportion of benefits. The latter could expose employers to an open-ended commitment to providing health benefits regardless of medical inflation.

The provisions affecting terminations would apply to those plans with assets not distributed by Feb. 28. No effective date was included for the retiree-health transfers, possibly because such transfers are not permitted.

(Separately, Sen. Bob Packwood, R-Ore., and Rep. Rod Chandler, R-Wash., proposed legislation last week that would permit employers to transfer pension assets exceeding 150% of current liabilities to pay for retiree-health costs. The bills also would provide tax deductions for employers who pre-fund up to $1,500 a year for each of retiree-health care and long-term care.)

The Metzenbaum-Kassebaum bill also says the purchase of annuities is a fiduciary decision. It expands retroactively the definition of a "qualifying employer security" to include an interest in a publicly traded partnership.

Experts question whether the bill will be passed in its current form. In addition, some expect the Senate Finance Committee to assert jurisdiction — particularly on the retiree-health transfer — even though the measure was drafted to avoid the tax-writing panels.

Some also speculate the bill is an effort to force employers to come to the bargaining table. Alternatives range from an outright ban on asset reversions to a moratorium on reversions, as recently proposed by Ms. Kassebaum.

In addition, Sen. Jim Jeffords, R-Vt. said he will offer a substitute measure on the Senate floor that would permit employers to use surplus assets to pay for other employee benefits, research and development and plant expansion, among other things. ■